

BEFORE THE CONGRESSIONAL RURAL CAUCUS

HOUSE OF REPRESENTATIVES

UNITED STATES CONGRESS

**Forum Concerning the Future of Telecommunications and the
Universal Service Fund in Rural America**

February 2, 2005

COMMENTS OF LAWRENCE E. SARJEANT

**VP FEDERAL LEGISLATIVE AND
REGULATORY AFFAIRS
QWEST**

Good afternoon. My name is Lawrence Sarjeant, and I am Vice President for Federal Legislative and Regulatory Affairs for Qwest. Qwest is very appreciative to have the opportunity to share its views with you today concerning universal service in rural America and commends the Congressional Rural Caucus and the Task Force on Telecommunications for committing its valuable time and attention to this important issue.

Qwest Communications provides local telephone service in fourteen states across the Central, Mountain and Pacific time zones. Its local service areas extend from Washington and Oregon east to Minnesota and Iowa, and from Montana south to Arizona and New Mexico. Qwest serves a substantial number of rural communities in each of its fourteen states.

Like many telephone service providers, Qwest is very concerned about the steadily increasing size of the federal Universal Service Fund. In 1996, the Fund's mandate was expanded beyond its historic mission of providing support to rural and high cost communities for basic telephone service. The Fund's mandate now includes providing support to:

- schools and libraries for telecommunications services, internal connections and Internet access;
- rural health care providers for telecommunications services; and
- low income subscribers for service initiation fees and reduced local service charges.

In its 2003 Annual Report, the Universal Service Administrative Company (USAC) noted that high cost support alone increased from \$1.69B in 1998 to \$3.27B in 2003. Projected high cost support for 2005 is \$3.9B. The total amount of support across all universal service programs – high cost, schools and libraries, rural health care and low income – for the first quarter of 2005 is projected to be just over \$2B. If the demand for each succeeding quarter matches the demand projected for the first quarter of 2005, total universal service support will exceed \$8B for this year.

Retail telecommunications services customers foot the bill for the Universal Service Fund. They are assessed a universal service contribution fee that is based on a percentage of the interstate charges rendered on their telephone bill. The “contribution” factor is set each quarter by the Federal Communications Commission (FCC) based on the funding requirements for the several universal service programs. For the first quarter of 2005, the universal service contribution factor is 10.7 percent. Unrestrained, the universal service fund will eventually collapse of its own weight. One potential casualty of such a collapse is rural America. Fund growth must be reigned in.

There are distortions in the administration of the Fund. An example can be found in the administration of the High Cost Model support (HCM) mechanism that is used to distribute high cost support to communities served by large carriers like Qwest. Despite the rural nature of much of its region, Qwest is considered a “non-rural” carrier. For 2005, USAC projects that only ten (AL-\$46,393,188; KY-\$17,658,218; ME-\$1,903,313; MS-\$148,418,134; MT-\$17,432,818; NE-\$7,018,299; SD-\$2,245,712; VT-\$10,329,410; WV-\$26,845,056; and WY-\$14,479,252)¹ of fifty states will receive non-rural carrier High Cost Model support. In the Qwest region, states that receive no High Cost Model support are: AZ; CO; IA; ID; MN; ND; NM; OR; UT; and WA. Each contains rural and high cost communities. The high cost model compares a non-rural carrier’s statewide average costs to a national average and provides funding to non-rural carriers only in states where the state’s average cost is above approximately 132 percent of the national average. The statewide averaging approach is arbitrary and disadvantages rural customers in most states if one or more low-cost-of-service areas exist in the state. In response to this problem, the Wyoming Public Service Commission and the Wyoming

¹ Appendix HC02 to USAC Federal Universal Service Support Mechanisms Fund Size Projections for the First Quarter 2005, November 2, 2004.

Office of Consumer Advocate have petitioned the FCC for additional high cost support for high cost communities served by Qwest in the state.

Another example of arbitrary administration of the Universal Service Fund is the manner in which the amount of support going to a high cost, rural community is determined by the designation of the serving carrier as “non-rural” or “rural.” Today, Qwest is designated as the incumbent local telephone company in Terry, Montana. Mid-Rivers Telephone Cooperative is now providing local service in Terry to more than 85 percent of the local service lines. Mid-Rivers has petitioned the FCC to declare it an incumbent local telephone company for Terry. According to the Montana Public Service Commission, Qwest’s first quarter 2005 monthly non-rural high cost support is projected to be \$44.56 per line.² If the Mid-Rivers petition is granted, it will be deemed a rural incumbent local telephone company, and its first quarter 2005 monthly rural high cost support is projected to be \$49.16 per line.³ Qwest does not object to competition in Terry, but competition in Terry should not be enabled by differential high cost support between the competitors, which is solely attributable to one carrier being deemed non-rural and the other being deemed rural. Such differentials also short-change rural communities served by non-rural carriers.

As legislators and regulators consider the options for universal service reform, Qwest urges that the following points be taken into consideration:

Universal Service Fund growth is unrestrained and should be reigned in;

High cost support should be targeted to truly needy communities and the amount of high cost support provided to a community should be determined without regard to the designation of a particular carrier as rural or non-rural;

Any universal service contribution mechanism borne by service providers must be nondiscriminatory in its application, competitively neutral and technology neutral; and

² Comments of the Montana Public Service Commission, WC Docket No. 02-78, filed December 21, 2004, at p.4.

³ *Id.*

It is time to address ourselves to the question of whether important social programs such as the schools and libraries, rural healthcare and low income programs should remain the funding responsibility of the now competitive telecommunications industry and its customers or whether alternative funding mechanisms are more appropriate.

As was pointed out in yesterday's Washington Post in an article concerning the announced SBC acquisition of AT&T, AT&T's long distance business "had subsidized local service for decades."⁴ "The company's [AT&T] motto was 'universal service' and it saw itself not just as a profit-seeking corporation but as an organization that fulfilled a vital public service – bringing phone service to nearly every corner of the nation."⁵ We have come a long way since the breakup of the Bell System and no one would seriously suggest that we return to the monopoly environment that once was. Still, the support of truly needy rural and high cost communities to ensure the availability of basic telecommunications service remains a vital public interest. As universal service reform moves forward here in Congress and at the FCC, all involved in the deliberations should be ever mindful of the original purpose of universal service – ensuring the availability of basic telephone service in rural and high cost communities. Policymakers must act in a manner that ensures the sustainability of the Universal Service Fund, refocuses its mandate on high cost support, requires that support be fairly distributed to rural and high cost communities irrespective of whether the carrier serving the community is rural or non-rural, and requires that providers of functionally equivalent services be equally obligated to contribute to the Fund on a competitively neutral and technology neutral basis.

Thank you.

⁴ Washington Post, February 1, 2005, E-1, *End of the Line For Ma Bell*.

⁵ *Id.*, E-5, *SBC Deal Illustrates AT&T's Decline*.